

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7516

Petition of Vermont Electric Cooperative, Inc. for)
Approval to Issue not to Exceed \$6 Million in)
Secured First Mortgage Bonds and to Incur Secured)
Short-term Obligations Under a \$20 Million)
Revolving Credit Facility with a Three Year Term)

Order entered: 6/26/2009

ORDER RE: FIRST MORTGAGE BONDS

I. INTRODUCTION

On April 15, 2009, Vermont Electric Cooperative, Inc. ("VEC" or "the Company") filed a petition (the "Petition") pursuant to 30 V.S.A. § 108 with the Vermont Public Service Board ("Board") seeking approval to: (1) issue first-mortgage bonds in an amount not to exceed \$6 million and secured under its First Mortgage Indenture (the "Bonds"); and (2) issue secured short-term indebtedness in connection with a proposed revolving credit facility (the "Facility") in a maximum principal amount of \$20 million. The proceeds of the Bonds will be used to repay outstanding principal under VEC's existing short-term line of credit, fund additional capital improvements, and pay costs related to the issuance of the Bonds. The Petition was supported by the prefiled testimony of Michael Bursell, the Company's Chief Financial Officer and by accompanying attachments.

Due to the expedited decision period for short-term debt established in 30 V.S.A. § 108(a)(1), the Board issued an order approving the short-term Facility on April 29, 2009. This Order pertains to the issuance of the Bonds in an amount not to exceed \$6 million.

On June 19, 2009, the Vermont Department of Public Service ("DPS") submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

Pursuant to 30 V.S.A. § 8, and based on the record and evidence before me, I present the following findings of fact and conclusions of law to the Board.

II. FINDINGS

1. Vermont Electric Cooperative, Inc., is a company as defined by 30 V.S.A. § 201. Petition at 1.

2. On June 23, 1997, in Docket No. 5971, the Board issued its decision authorizing VEC to issue Mortgage Bonds under a First Mortgage Indenture between VEC and Bank of New York (the "Indenture"). Petition at 1.

3. The Indenture encumbers substantially all of the assets of VEC, including substantially all of VEC's operating real estate, plant and equipment, with limited exceptions. Petition at 1.

4. VEC requests Board approval to issue the Bonds under its existing Indenture. The principal amount of the Bonds will not exceed \$6 million. The proceeds of the Bonds will be used to: (1) repay the principal amount outstanding under VEC's existing short-term line of credit;¹ (2) finance certain capital improvements as identified in VEC's capital budget plan; and (3) pay a portion of the costs of issuance of the Bonds. VEC anticipates that the Bonds will be issued in December 2009. Bursell pf. at 4-5.

5. VEC expects to spend approximately \$9,650,000 as part of its 2009 capital budget plan to finance capital improvements identified in a report by MPR Associates,² the Business Process Review and Audit performed by Stone & Webster Management Consultants, Inc., and the Company's Integrated Resource Plan submitted to the Board on June 30, 2008. VEC contemplates the issuance of \$4,750,000 of first-mortgage bonds unless its 2009 earnings are adversely impacted and it is unable to meet its earnings budget. In the event VEC's 2009 earnings are adversely impacted, it will have to increase the issuance up to the requested \$6 million in order to fund the 2009 capital budget plan. Bursell pf. at 5.

1. According to VEC's 2008 audited financial statements, the outstanding balance under VEC's line of credit was \$2.5 million as of December 31, 2008.

2. VEC previously submitted a work plan in relation to the investigation conducted by MPR Associates of an incident which occurred at VEC's Richford substation. *See* Investigation into Vermont Electric Cooperative, Inc.'s Service Quality and Reliability, Docket No. 7273, Order of April 4, 2008, at 2, 9.

6. VEC has approached and will select between its two most significant lenders, CoBank ACB ("CoBank") and the National Rural Utilities Cooperative Finance Corporation ("CFC"), to determine which institution would be willing to provide VEC with the requested financing. The general terms and costs of the Bonds are provided in two separate term sheets from CoBank and CFC dated March 20, 2009, and March 27, 2009, respectively, as attachments to the Petition. Both CoBank and CFC are holders of VEC's bonds previously issued under the Indenture. Both CoBank and CFC provide for a return of patronage capital as the loans are repaid, reducing the effective borrowing rates. The return of patronage capital has ranged from 40 basis points to 75 basis points annually. Bursell pf. at 6.

7. If CFC is selected as the lender, VEC would be required to borrow additional funds in order to purchase loan capital term certificates ("LCTC's") as a condition of membership in CFC; however, as a member of CFC, VEC will become entitled to accrue patronage capital in CFC. Due to the required purchase of LCTC's, VEC expects to borrow up to the requested \$6 million with a portion of the proceeds, estimated in the amount of \$150,000, to be used to purchase the LCTC's. Bursell pf. at 6.

8. VEC is considering maturities for the Bonds within twenty to thirty years depending upon the impact the amortization schedules will have on cash flow based upon the interest rates then available for the term. VEC will have the option to choose either a fixed or variable rate, or a combination of both. Current market rates show CoBank variable rates at 3.88% and CFC variable rates at 5.4%. Five-year and thirty-year fixed rates quoted by CoBank are approximately 5.03% and 7.50% respectively, and CFC's five-year and thirty-year rates are 6.05% and 8.30% respectively. VEC will monitor the interest rates available from these lenders to select the most advantageous rate. Principal and interest payments will be due quarterly based on a level debt-service schedule. Bursell pf. at 7-8.

III. DISCUSSION & CONCLUSION

In its Petition, VEC contends that its choice between a twenty-year and thirty-year amortization schedule will be based upon the interest rates then available and the potential

impacts on its cash flow.³ VEC's lenders have provided the Company with a choice between variable and fixed rates as set out in Finding No. 8, above. Corporate lending rates remain vulnerable to continued volatility in the credit markets. Due to this uncertainty, I recommend that the Board adopt a condition requiring VEC to provide advance notice to the Board prior to closing of an increase greater than 100 basis points in the interest rate it selects from those offered by its lenders as set out in the findings above.

Based on the evidence, I conclude that VEC's petition to issue the Bonds in an amount not to exceed \$6 million with either CFC or CoBank, and secured under its First Mortgage Indenture, will be consistent with the general good of the state. The Bonds will provide a source of capital for VEC to improve its balance sheet by converting short-term debt to long-term debt, and to make system improvements and repairs pursuant to its 2009 capital budget plan. Therefore, I find that approval of VEC's request for long-term indebtedness as described above is consistent with the general good of the state and recommend that the Board issue an order to that effect.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont, this 26th day of June, 2009.

s/Jay E. Dudley
Jay E. Dudley
Hearing Officer

3. Bursell pf. at 6.

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings, Conclusion, and recommendations of the Hearing Officer are adopted.
2. The Board consents to the issuance by Vermont Electric Cooperative, Inc. ("VEC") of first mortgage bonds in an amount not to exceed \$6 million and secured under its First Mortgage Indenture, with either National Rural Utilities Cooperative Finance Corporation or CoBank, ACB, as lender, and to utilize the interest-rate options as set forth in the findings, above.
3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that VEC may implement. Nothing in this approval shall preclude the Vermont Department of Public Service ("Department") or any other party, or the Public Service Board ("Board"), from reviewing and/or challenging those expenditures and/or VEC's resulting capital structure in any future proceeding.
4. VEC shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
5. VEC shall inform the Board prior to closing of an increase greater than 100 basis points in the interest rate it selects from those offered by its lenders as set out in the findings above.
5. Upon request, VEC shall provide the Board and the Department with a complete set of final executed documents when they are available.

Dated at Montpelier, Vermont, this 26th day of June, 2009.

<u>s/James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: June 26, 2009

ATTEST: s/Susan M. Hudson
CLERK OF THE BOARD

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.